

Chapter I. Introduction and Overview

The Welfare Indicators Act of 1994 (Pub. L. 103-432) directed the Secretary of Health and Human Services (HHS) to publish an annual report on welfare dependency. This 2001 report, the fourth annual report, gives updated data on the measures of welfare reciprocity, dependency, and predictors of welfare dependence developed for previous reports. It is the first report to provide welfare dependency indicators for the 1996-1998 period, reflecting changes that have taken place since enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in August 1996.

The purpose of this report is to address questions concerning the extent to which American families depend on income from welfare programs. Under the Welfare Indicators Act, HHS was directed to address the rate of welfare dependency, the degree and duration of welfare reciprocity and dependence, and predictors of welfare dependence. The Act further specified that analyses of means-tested assistance should include benefits under the Aid to Families with Dependent Children (AFDC) program, now the Temporary Assistance to Needy Families (TANF) program; the Food Stamp Program; and the Supplemental Security Income (SSI) program.

The first annual report was produced under the oversight of a bipartisan Advisory Board on Welfare Indicators, which assisted the Secretary in defining welfare dependence, developing indicators of welfare dependence, and choosing appropriate data. Under the terms of the original authorizing legislation, the Advisory Board was terminated in October 1997, prior to the submission of the first annual report. Subsequent annual reports have provided updates for the measures developed for the first report. The report was shortened last year, in keeping with Congressional interest in a smaller set of indicators and predictors of dependency.

This 2001 report provides updated measures through 1998 for several dependency measures, a significant update from the 1995 measures reported last year. This update was possible because of a change in data source for a half-dozen indicators, from the Survey of Income and Program Participation (SIPP) to the Current Population Survey (CPS). Whereas the SIPP data are only available through 1995, the CPS data are available for more recent years, allowing examination of indicators and predictors of dependency since the 1996 enactment of welfare reform. Concurrent with the change in data source, the report has been reorganized slightly, with the annually updated figures now presented at the beginning of each section, followed by the measures that are updated less frequently.

Organization of Report

This introductory chapter provides an overview of the specific summary measures of welfare dependence proposed by the Advisory Board. It also discusses summary measures of poverty, following the Board's recommendation that dependence measures not be assessed in isolation from measures of deprivation. Analysis of both measures is important because changes in dependence measures could result either from increases in work activity and other factors that would raise family incomes, or from sanctions or other changes in welfare programs that would

reduce welfare program participation but might not improve the material circumstances of these families. The introduction concludes with a discussion of data sources used for the report.

Chapter II of the report, Indicators of Dependence, presents a dozen indicators of welfare dependence and reciprocity. These indicators include dependency measures based on total income from all three programs – AFDC/TANF, SSI, and food stamps, as well as measures of reciprocity for each of the three programs considered separately. The labor force participation among families receiving welfare and multiple receipt across programs are also shown. The second half of the chapter also includes longitudinal data on transitions on and off welfare programs and spells of dependency and reciprocity.

Chapter III, Predictors and Risk Factors Associated with Welfare Receipt, focuses on predictors of welfare dependence -- risk factors believed to be associated with welfare receipt in some way. These predictors are shown in three different groups:

- (1) **Economic security** – including various measures of poverty, receipt of child support, food insecurity, and health insurance coverage – is important in predicting dependence in the sense that families with fewer economic resources are more likely to rely on welfare programs for their support.
- (2) Measures of the **work status** and barriers to employment of adult family members also are critical, because families must generally receive an adequate income from employment in order to avoid dependence without severe deprivation.
- (3) Finally, data on **non-marital births** are important since history has shown that a high proportion of long-term welfare recipients became parents outside of marriage, frequently as teen parents.

Additional data are presented in four appendices. Appendix A provides basic program data on each of the main welfare programs and their recipients; Appendix B shows how dependency is affected by the inclusion of benefits from the SSI program; Appendix C includes additional data on non-marital childbearing; and Appendix D provides more information about the change in data sources in this 2001 report. The main welfare programs included in Appendix A are:

- The **Aid to Families with Dependent Children (AFDC)** program, the largest cash assistance program, provided monthly cash benefits to families with children, until its replacement by the **Temporary Assistance for Needy Families (TANF)** program, which is run directly by the states. Data on the AFDC and TANF programs are provided in Appendix A, with AFDC data provided from 1977 through June 1997, and TANF data from July 1997 through 1999, or when available, 2000.
- The **Food Stamp Program** provides monthly food stamp coupons to all individuals, whether they are living in families or alone, provided their income and assets are below thresholds set in Federal law. It reaches more poor people over the course of a year than

any other means-tested public assistance program. Appendix A provides historical data from 1970 to 1999, or when available, 2000.

- The **Supplemental Security Income (SSI)** program provides monthly cash payments to elderly, blind, or disabled individuals or couples whose income and assets are below levels set in Federal law. Though the majority of recipients are adults, disabled children also are eligible. Historical data from 1974 through 1999 are provided in Appendix A.

Measuring Welfare Dependence

As suggested by its title, this report focuses on welfare “dependency” as well as welfare “reciprocity.” While reciprocity can be defined fairly easily, based on the presence of benefits from AFDC/TANF, SSI or food stamps, dependency is a more complex concept.

Welfare dependence, like poverty, is a continuum, with variations in degree and in duration. Families may be more or less dependent if larger or smaller shares of their total resources are derived from welfare programs. The amount of time over which a family depends on welfare might also be considered in assessing its degree of dependency. Nevertheless, a summary measure of dependence to be used as an indicator for policy purposes must have some fixed parameters that allow one to determine which families should be counted as dependent, just as the poverty line defines who is poor under the official standard. The definition of dependence proposed by the Advisory Board for this purpose is as follows:

A family is dependent on welfare if more than 50 percent of its total income in a one-year period comes from AFDC, food stamps and/or SSI, and this welfare income is not associated with work activities. Welfare dependence is the proportion of all families who are dependent on welfare.

This measure is not without its limitations. The Advisory Board recognized that no single measure could fully capture all aspects of dependence and that the proposed measure should be examined in concert with other key indicators of dependence and deprivation. In addition, while the proposed definition would count unsubsidized and subsidized employment and work required to obtain benefits as work activities, existing data sources do not permit distinguishing between welfare income associated with work activities and non-work-related welfare benefits. As a result, the data shown in this report overstate the incidence of dependence (as defined above) because welfare income associated with work required to obtain benefits is classified as welfare and not as income from work. This issue may be growing in importance under the increased work requirements of the TANF program. In 1999, the percentage of welfare recipients who were working (including employment, work experience, and community service) reached an all-time high of 28 percent, compared to the 7 percent recorded in 1992.¹

¹ The earnings of those in unsubsidized employment would be correctly captured as income from work in national surveys. Any welfare benefits associated with work experience, community service programs or other work activities,

This proposed definition also represents an essentially arbitrary choice of a percentage (50 percent) of income from welfare beyond which families will be considered dependent. However, it is relatively easy to measure and to track over time, and is likely to be associated with any very large changes in total dependence, however defined. For example, as the recent changes in welfare law move more recipients into employment or work-related activities, dependence under this definition is expected to decline.

As shown in Figure SUM 1, 3.8 percent of the population would be considered “dependent” on welfare in 1998 under the above definition. This is less than one-third of the percentage (13.5 percent) who lived in a family receiving at least some AFDC/TANF, food stamp or SSI benefits during the year. Both dependency and reciprocity rates have fallen since 1994: dependency rates fell from 5.8 to 3.8 percent, while reciprocity rates fell from 17.2 to 13.5 percent. The drop in reciprocity rates is consistent with administrative data showing a peak in AFDC caseloads in 1993 and in food stamp caseloads in 1994 and a steady decrease in both programs since that time. What is not apparent from administrative records, but is shown in these national survey data, is that the dependency rate also peaked in 1993, with particularly strong declines in dependency between 1996 and 1998.

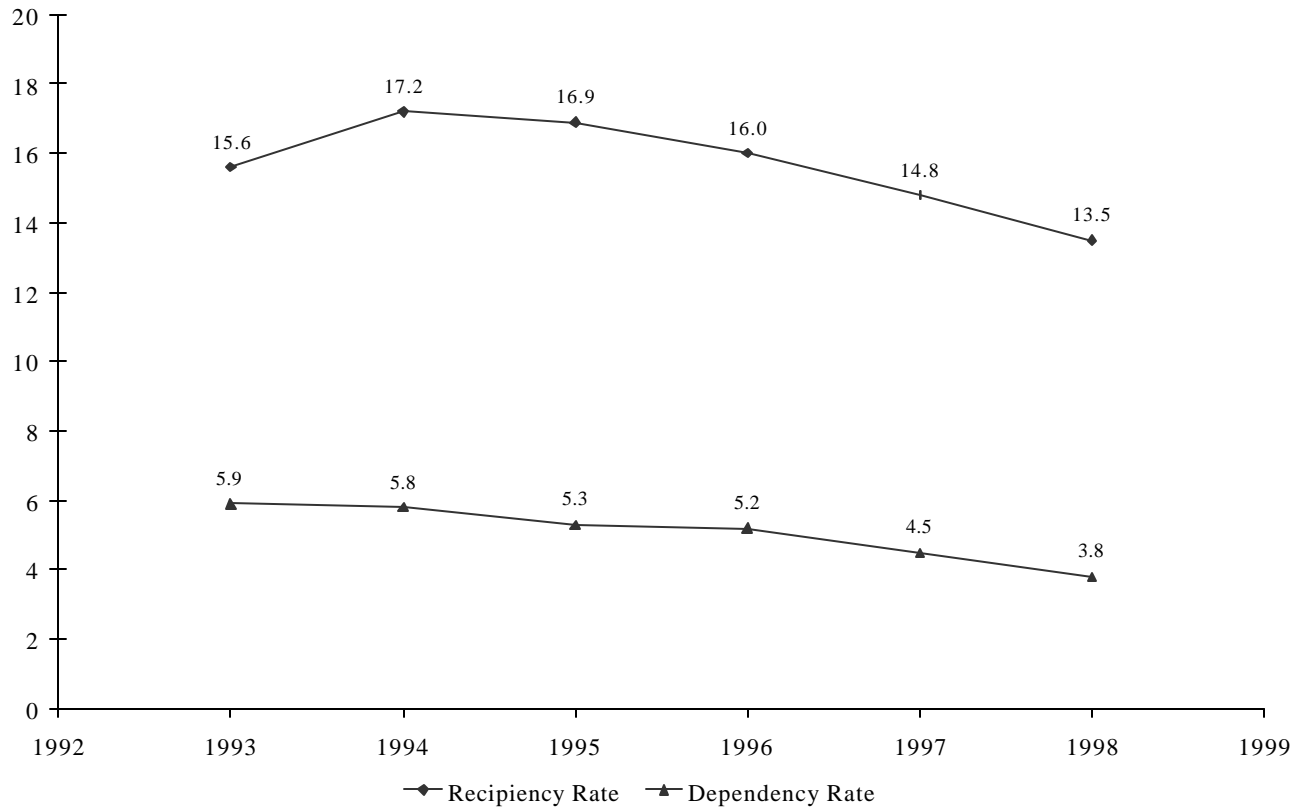
Reciprocity and dependency rates are higher for non-Hispanic blacks and Hispanics than for non-Hispanic whites, as shown in Table SUM 1, which shows these rates for various racial and age categories. Reciprocity and dependency also are higher for young children than for adults.

Dependency on assistance also varies depending upon which programs are counted as “welfare programs.” Dependency would be lower – 2.1 percent – if only AFDC/TANF and food stamp benefits were counted (as shown in Appendix B). In general, 70 to 75 percent of individuals who are dependent under the standard definition also are dependent under an alternative definition that considers AFDC and food stamps alone (as is done in some measures in this report). In general, non-whites and the very young were more likely to be dependent than other racial and age categories, and they are primarily dependent on AFDC and food stamps. Even in these populations, however, the vast majority of families do not meet the criteria for dependence.

Another factor affecting dependency is the time period observed. The summary measures shown in Figure and Table SUM 1 focus on reciprocity and dependency rates over a one-year time period. Long-term dependency is more rare, as shown in the longitudinal measures in the second half of Chapter II. Indicator 9, for example, shows that only 4 percent of those who were AFDC recipients in 1982 were dependent (i.e., received more than 50 percent of their income from AFDC and food stamps) for nine or ten years. This represents less than 0.5 percent of the total population. Half of the 1982 recipients were not dependent in any year over the 1982-1991 time period.

however, would be counted as income from welfare in most national surveys, an incorrect classification according to the proposed definition.

Figure SUM 1. Reciprocity and Dependency Rates: 1993-1998



Note: Reciprocity is defined as living in a family with receipt of any amount of AFDC/TANF, SSI, or food stamps during year. Dependency is defined as having more than 50 percent of annual income from AFDC/TANF, SSI and/or food stamps. Dependency rates would be lower if adjusted to exclude welfare assistance associated with working.

Source: March CPS data, analyzed using the TRIM3 microsimulation model.

Table SUM 1. Reciprocity and Dependency Rates: 1993-1998

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Reciprocity Rates (Rates of Any Amount of AFDC/TANF, Food Stamps, or SSI) | | | | | | |
| All Persons | 16.6 | 17.2 | 16.9 | 16.0 | 14.8 | 13.5 |
| Racial Categories | | | | | | |
| Non-Hispanic White | 10.3 | 10.9 | 10.0 | 9.9 | 9.7 | 8.6 |
| Non-Hispanic Black | 38.0 | 38.3 | 38.6 | 35.6 | 30.2 | 29.6 |
| Hispanic | 34.6 | 34.9 | 35.0 | 32.0 | 28.0 | 24.5 |
| Age Categories | | | | | | |
| Children Ages 0-5 | 30.5 | 31.5 | 31.6 | 28.2 | 25.1 | 22.4 |
| Children Ages 6-10 | 24.9 | 26.8 | 26.5 | 24.2 | 21.2 | 20.0 |
| Children Ages 11-15 | 22.1 | 23.6 | 21.7 | 21.1 | 19.4 | 17.0 |
| Women Ages 16-64 | 16.4 | 16.9 | 16.6 | 16.0 | 14.7 | 13.6 |
| Men Ages 16-64 | 11.5 | 11.9 | 11.8 | 11.7 | 11.1 | 10.0 |
| Adults Age 65 and over | 11.2 | 10.9 | 10.6 | 10.3 | 10.2 | 9.9 |
| Dependency Rates (More than 50 Percent of Income from Means-Tested Assistance) | | | | | | |
| All Persons | 5.9 | 5.8 | 5.3 | 5.2 | 4.5 | 3.8 |
| Racial Categories | | | | | | |
| Non-Hispanic White | 3.0 | 2.9 | 2.3 | 2.6 | 2.5 | 2.1 |
| Non-Hispanic Black | 17.8 | 16.7 | 15.5 | 13.8 | 11.4 | 10.5 |
| Hispanic | 11.8 | 12.5 | 12.2 | 10.9 | 9.1 | 6.6 |
| Age Categories | | | | | | |
| Children Ages 0-5 | 13.9 | 13.7 | 12.9 | 11.2 | 9.3 | 7.8 |
| Children Ages 6-10 | 11.2 | 11.2 | 10.5 | 9.5 | 8.4 | 6.7 |
| Children Ages 11-15 | 9.3 | 9.2 | 7.6 | 8.1 | 7.4 | 5.7 |
| Women Ages 16-64 | 5.9 | 5.7 | 5.2 | 5.2 | 4.6 | 3.9 |
| Men Ages 16-64 | 2.7 | 2.7 | 2.5 | 2.7 | 2.5 | 2.1 |
| Adults Age 65 and over | 2.4 | 2.7 | 2.2 | 2.4 | 2.1 | 2.1 |

Note: Reciprocity is defined as living in a family with receipt of any amount of AFDC/TANF, SSI, or food stamps during year. Dependency is defined as having more than 50 percent of annual family income from AFDC/TANF, SSI and/or food stamps. Dependency rates would be lower if adjusted to exclude welfare assistance associated with working.

Source: March CPS data, analyzed using the TRIM3 microsimulation model.

Measuring Deprivation

Changes in dependence may or may not be associated with changes in the level of deprivation, depending on the alternative sources of support found by families who might otherwise be dependent on welfare. To assess the social impacts of any change in dependence, changes in the level of poverty or deprivation also must be considered. One way of measuring deprivation is to look at changes in the level of need over time. Elsewhere in this report, for example, measures of food insecurity and lack of health insurance are presented.

The deprivation measure presented in this report, however, focuses directly on changes in the poverty rate, both under the official poverty rate and under expanded measures that take into account cash benefits, non-cash benefits and taxes. These measures also show the degree to which welfare and related programs are effective in moving people out of poverty. The data, shown in Figure SUM 2 illustrate two primary points. First, cash welfare and non-cash welfare benefits reduce the number of poor families. Second, under any of the poverty measures presented in Figure SUM 2, poverty rates have been decreasing since 1993, as economic conditions have improved and policies have promoted and rewarded work. Each of these points is discussed below.

Three different concepts of income are used in Figure SUM 2, which shows alternative measures of poverty rates for all persons between 1979 and 1999. (The table underlying this graph is presented in Chapter III, under the Economic Security Risk Factor, ECON 4). The three measures in the graph are as follows:

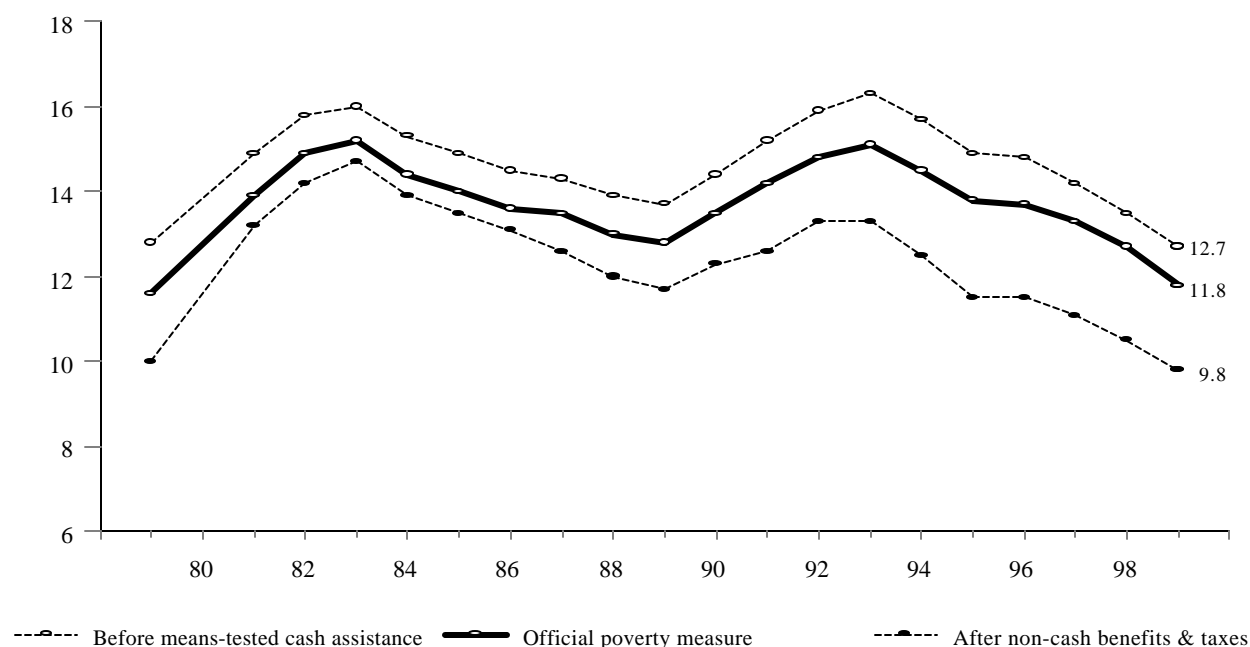
The bold line shows the official poverty rate, based on total cash income, including earned and unearned income. The official poverty rate was 11.8 percent in 1999.

The dotted line with unfilled circles shows what poverty would be if means-tested cash assistance (primarily AFDC and SSI) were excluded from cash income. Under this measure, income includes earnings and other private cash income, plus social security, workers' compensation, and other social insurance programs. Poverty under this measure would be almost one percentage point higher, 12.7 percent in 1999. This indicates that many more families would be poor if they did not receive welfare benefits.

The lowest line shows how poverty would be lower if the cash value of non-cash benefits (food and housing) and taxes (including refunds under the Earned Income Tax Credit) were counted as income.² Under this definition, poverty rates would fall by more than two percentage points, to 9.8 percent in 1999.

² The effects of non-cash benefits (food and housing) and taxes are shown separately in ECON 4 in Chapter III. Prior to 1993, taxes increased poverty. Since 1993, taxes, including the refunds through the Earned Income Tax Credit, have caused additional reductions in poverty.

Figure SUM 2. Percentage of Total Population in Poverty with Various Means-Tested Benefits Added to Total Cash Income: 1979-1999



Source: Congressional Budget Office tabulations of March CPS data. Additional calculations by DHHS. See ECON 4 in Chapter III for underlying table and further notes.

The combined effect of means-tested cash assistance, food and housing benefits, and EITC and taxes was to reduce the poverty rate in 1999 by 2.9 percentage points, from 12.7 percent to 9.8 percent (the difference between the top and bottom lines in Figure SUM 2). The net effectiveness of means-tested benefits (including cash assistance, food and housing benefits, and the EITC and other taxes) in reducing the poverty rate has averaged about three percentage points during most of the past decade. Net reductions in poverty rates were somewhat lower during the recession of the early 1980s, and somewhat higher in the mid 1990's, largely due to expansions in the EITC.

As economic conditions improved during the mid-1990s, poverty rates decreased under all three concepts of income. Poverty rates continued to decline after enactment of PRWORA in 1996. In fact, a comparison of SUM 1 and SUM 2 suggests that deprivation decreased at the same time as the large declines in caseloads and welfare dependency. In 1998, the final poverty rate was 10.4 percent after adding in non-cash benefits and taxes, a decline from 13.3 percent in 1993. Over the same time period, the dependence measure also declined, from 5.9 percent to 3.8 percent. The combined effect of welfare reform and the strong economy has been to reduce dependence on welfare at the same time as reducing poverty. It will be important to continue to track changes in these dependency and deprivation

rates over the next several years, to see how they are affected by future changes in economic conditions.

Data Sources

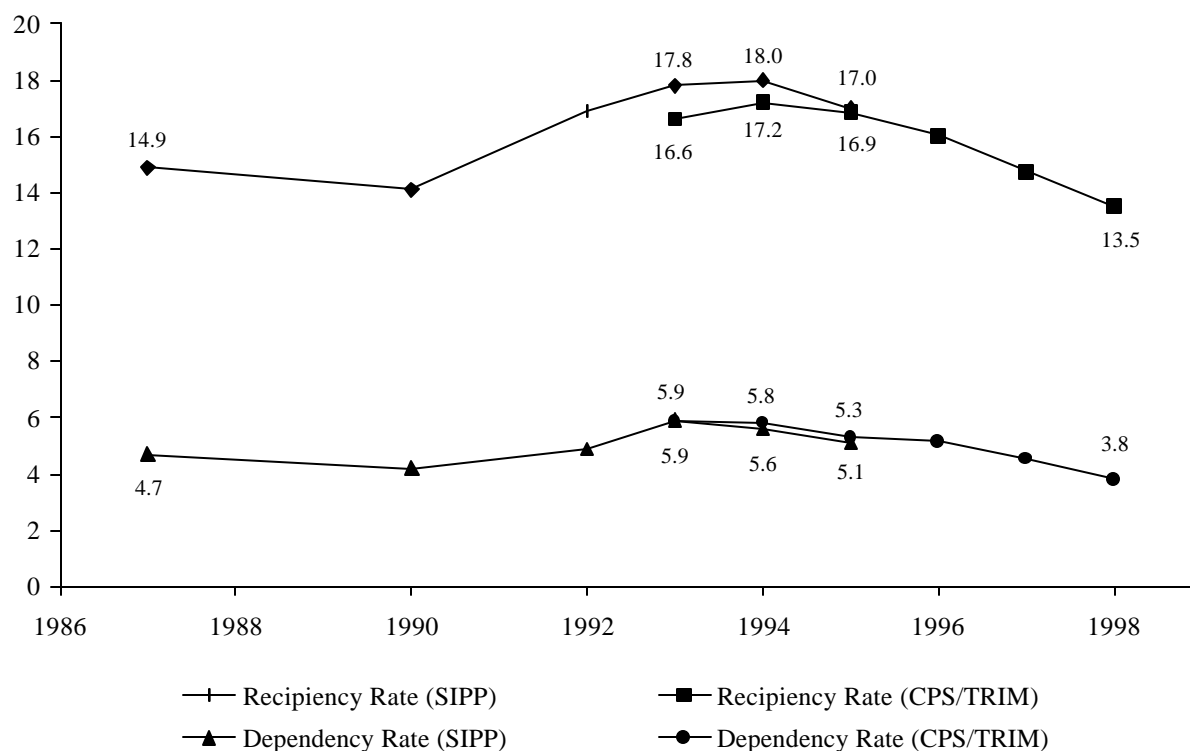
This 2001 report relies more heavily than past reports on data from the Annual March Demographic Supplement to the Current Population Survey (CPS). Several of the indicators and predictors of dependence are now based on CPS data rather than data from the Survey of Income and Program Participation (SIPP). This change was necessary because the Census Bureau was unable to update the SIPP data analyses beyond the 1995 data presented in last year's report.

If it were not for the lags in data availability, the Survey of Income and Program Participation (SIPP) would be considered the most useful national survey for measuring welfare dependency. It was used most extensively in the first three annual reports. Its strengths are its longitudinal design, system of monthly accounting, and detail concerning employment, income and participation in federal income-support and related programs. These features make the SIPP particularly effective for capturing the complexities of program dynamics and it continues to be an important source of data in this report, particularly for measures related to spell duration and transitions in and out of reciprocity, dependency and poverty.

For measures of receipt, dependency, and poverty at a single point in time, however, this year's report primarily uses the March CPS, which measures income and poverty over an annual accounting period. The CPS data are available on a more timely basis than the SIPP, and have been widely used to measure trends since the welfare reform legislation of 1996. However, because the CPS does not collect income in the same detail as the SIPP, it has been subject to criticism for underreporting of income, particularly welfare income. To address this concern, some of the indicators in this report are based on CPS data that has been analyzed by the Transfer Income Model (TRIM3), a microsimulation model developed by the Urban Institute under contract to the Office of the Assistant Secretary for Planning and Evaluation. Although its primary purpose is to simulate program eligibility and the impact of policy proposals, the TRIM model has also been used to correct for underreporting of welfare receipt and benefits. Welfare caseloads in TRIM3 are based on CPS data, adjusted upward to ensure that total estimates of recipients equal the total counts from administrative data. Even with these adjustments, some measurement differences between the CPS/TRIM data and SIPP data remain.

As shown in Figure SUM 3, the overall measures of dependency and reciprocity are not greatly affected by the change in data sources. Both data sources show a decline in dependency between 1993 and 1995, from 5.9 to 5.1 percent under the SIPP data, and from 5.9 to 5.3 percent under the TRIM-adjusted CPS data. Still, readers are cautioned against comparing measures for 1987-1995 from the SIPP data in last year's report with the new measures for 1996-1998 from the TRIM-adjusted CPS data. Therefore, indicators using the CPS data were analyzed over a six-year period – 1993 to 1998 – providing a new time series of how the indicators are changing over time from a consistent data source. Further information about the change in data sources is provided in Appendix D.

Figure SUM 3. Reciprocity and Dependency Rates from Two Data Sources: 1987-1998



Note: Reciprocity is defined as receipt of any amount of AFDC/TANF, SSI, or food stamps during year. Dependency is defined as having more than 50 percent of annual family income from AFDC/TANF, SSI and/or food stamps. Dependency rates would be lower if adjusted to exclude welfare assistance associated with working.

Source: March CPS data, analyzed using the TRIM3 microsimulation model.

The Panel Study of Income Dynamics (PSID) is another source of data used in this report. Like the SIPP it provides longitudinal data, but over a much longer time period than the approximate three-year time period of the SIPP. The PSID has collected annual income data, including transfer income, since 1968, providing vital data for indicators of long-term welfare receipt, dependence, and deprivation. As with the SIPP data, there have been lags in obtaining updated PSID data for the mid- to late- 1990s. Once again, the indicators that are based on PSID data cover the same ten-year period (1982-1991) as in the last several volumes. The Department plans to publish updated PSID analyses in next year's report.

Finally, the report also draws upon administrative data for the AFDC/TANF, Food Stamp and SSI programs. These data are largely reported in Appendix A. Like the CPS data, administrative data are generally available with little time lags; these data are generally available through fiscal year 1999 (or, for some aggregate caseload statistics, fiscal year 2000). To the extent possible, TANF administrative data are reported in a consistent manner with data from the earlier AFDC program, as noted in the footnotes to the tables in Appendix A. The fact remains that assistance under locally designed TANF programs

encompasses a diverse set of cash and non-cash services designed to support families in making a transition to work, and so direct comparisons between AFDC receipt and TANF receipt must be made with caution. This issue also affects reported data on TANF receipt in national data sets such as the CPS and SIPP.

Most of the data sources allow analysis of the indicators and predictors of welfare dependence across several age and race/ethnic categories. Where the data are available, statistics are shown for three racial/ethnic groups – non-Hispanic whites, non-Hispanic blacks, and Hispanics. In some instances, however, there are not sufficient data on individuals of Hispanic origin, and so the measures are shown for only two racial/ethnic categories.

Two other technical notes concern the unit of analysis and the difference between annual and monthly measures. The individual, rather than the family or household, is the unit of analysis for most of the statistics in this report. The individual's dependency status, however, is generally based on total family income, taking into account means-tested assistance, earnings and other sources of income for all individuals in the family.³ This chapter, for example, has reported the percentage of individuals that are dependent (in SUM 1) or poor (in SUM 2) according to annual total family income. Reciprocity status is also based on total annual family income in some instances; in SUM 1, for example, recipients are individuals in families receiving assistance at some point in the year. In most other indicators, reciprocity is measured as the direct receipt of a benefit by an individual in a month. The difference between an individual and a family measure of reciprocity is largest in the SSI program, which provides benefits to individuals and couples, not to families.

There also are differences between monthly and annual observation of benefit receipt. For example, the measures of annual reciprocity (that is, any receipt over the course of a year) shown in Figure and Table SUM 1 are higher than the more traditional measures of reciprocity in an average month, as shown in several other indicators.

³ Family is generally defined as following the broad Census Bureau definition of family – all persons related by blood, marriage, or adoption.